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Draft Changes to Eliminate the Double Taxation of Large Corporation Dividends

The Honourable Jim Flaherty, Minister of Finance, today released for public comment draft legislative measures implementing the Government's proposal in Budget 2006 to lower the income tax rate on large corporation dividends received by Canadians.

"The Government is committed to providing tax relief to all Canadians," the Minister said. "And by eliminating the double taxation of large corporation dividends, these measures will make investments in shares of corporations more attractive and help to level the playing field with other investments, such as investments in units of income trusts."

Dividends are paid out of a corporation's after-tax income, and are also taxable in the hands of the shareholders who receive them. To relieve this double taxation, individual shareholders who receive dividends are required to "gross-up" the amount included in their income in respect of the dividend (to reflect the pre-tax income of the corporation), but then may, when computing tax payable, deduct a dividend tax credit (DTC) in recognition of the corporate tax.

Under the current gross-up and DTC, there is generally no element of double taxation for dividends that a corporation pays out of income benefiting from certain preferential income tax rates, the most notable being the special tax rate for small businesses. But Canadians also invest in large corporations, and most of these corporations do not have access to preferential rates. Today's proposed legislation will create an enhanced gross-up and DTC for dividends paid from corporate earnings that do not benefit from preferential rates, and thus will generally eliminate the double taxation of those dividends at the federal level.

The Minister invites interested parties to submit any comments on the legislative proposals by September 15, 2006. Following consultation, it is expected that legislation will be introduced in Parliament in the fall. As announced earlier, the new measures will apply to eligible dividends paid after 2005.

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